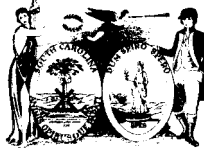


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

July 31, 2001

Mr. Richard C. Cooke
Cooke Management Company, Inc.
Post Office Box 808
Lake View, South Carolina 29563

Re: AC# 3-MHC-F8 – McCormick Health Care Center


Dear Mr. Cooke:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period July 1, 1997 through June 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

MCCORMICK HEALTH CARE CENTER

MCCORMICK, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-MHC-F8**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

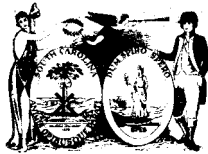
STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 17, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with McCormick Health Care Center, for the contract period beginning October 1, 1999, and for the twelve month cost report period ended June 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

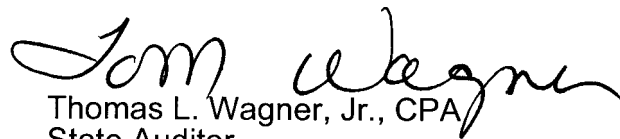
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by McCormick Health Care Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, Cost of Capital Reimbursement Analysis and the Comments and Recommendations sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and McCormick Health Care Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 17, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

MCCORMICK HEALTH CARE CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-MHC-F8

| | |
|--------------------------------|----------------|
| Interim reimbursement rate (1) | \$95.75 |
| Adjusted reimbursement rate | <u>88.69</u> |
| Decrease in reimbursement rate | <u>\$ 7.06</u> |

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

MCCORMICK HEALTH CARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period Beginning October 1, 1999
AC# 3-MHC-F8

| | <u>Incentives</u> | <u>Allowable Cost</u> | <u>Cost Standard</u> | <u>Computed Rate</u> |
|---|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u> | | | | |
| General Services | | \$41.98 | \$50.88 | |
| Dietary | | 9.57 | 9.69 | |
| Laundry/Housekeeping/Maint. | | <u>7.01</u> | <u>8.24</u> | |
| Subtotal | <u>\$4.82</u> | 58.56 | 68.81 | \$58.56 |
| Administration & Med. Rec. | <u>\$3.17</u> | <u>8.39</u> | <u>11.56</u> | <u>8.39</u> |
| Subtotal | | 66.95 | <u>\$80.37</u> | 66.95 |
| <u>Costs Not Subject to Standards:</u> | | | | |
| Utilities | | 2.55 | | 2.55 |
| Special Services | | .58 | | .58 |
| Medical Supplies & Oxygen | | 4.58 | | 4.58 |
| Taxes and Insurance | | .64 | | .64 |
| Legal Fees | | <u>-</u> | | <u>-</u> |
| TOTAL | | <u>\$75.30</u> | | 75.30 |
| Inflation Factor (3.00%) | | | | 2.26 |
| Cost of Capital | | | | 7.22 |
| Cost of Capital Limitation | | | | - |
| Profit Incentive (Maximum 3.5% of Allowable Cost) | | | | 2.64 |
| Cost Incentive | | | | 4.82 |
| Effect of \$1.75 Cap on Cost/Profit Incentives | | | | (5.71) |
| CNA Add-On | | | | .75 |
| Nurse Aide Staffing Add-On | | | | <u>1.41</u> |
| ADJUSTED REIMBURSEMENT RATE | | | | <u>\$88.69</u> |

MCCORMICK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended June 30, 1998
AC# 3-MHC-F8

| <u>Expenses</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments | | <u>Adjusted Totals</u> |
|-------------------------------------|--|--------------|---|----------------------------|
| | | <u>Debit</u> | <u>Credit</u> | |
| General Services | \$1,569,012 | \$ - | \$ 13,051 (5) 349 (9) 97 (9) 49,629 (10) 2,525 (10) | \$1,503,361 |
| Dietary | 371,140 | - | 15,982 (9) 5,155 (10) 7,154 (11) | 342,849 |
| Laundry | 64,356 | - | 13 (9) 1,731 (10) | 62,612 |
| Housekeeping | 124,963 | - | 1,330 (9) 3,864 (10) | 119,769 |
| Maintenance | 72,633 | - | 2,554 (9) 1,359 (10) | 68,720 |
| Administration & Medical Records | 309,952 | - | 3,977 (9) 1,300 (9) 3,964 (10) 270 (10) | 300,441 |
| Utilities | 103,950 | - | 12,634 (6) | 91,316 |
| Special Services | 20,906 | 33,365 (11) | 33,364 (9) | 20,907 |
| Medical Supplies & Oxygen | 207,313 | - | 7,236 (8) 33,832 (9) 2,069 (11) | 164,176 |

MCCORMICK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended June 30, 1998
AC# 3-MHC-F8

| <u>Expenses</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments | | <u>Adjusted Totals</u> |
|-----------------------------|--|---|---|----------------------------|
| | | <u>Debit</u> | <u>Credit</u> | |
| Taxes & Insurance | 31,692 | - | 8,825 (7) | 22,867 |
| Legal Fees | - | - | - | - |
| Cost of Capital | 272,273 | 15,438 (1) 6,524 (12) | 7,197 (2) 28,520 (3) 55 (4) | 258,463 |
| Subtotal | 3,148,190 | 55,327 | 248,036 | 2,955,481 |
| Ancillary | 122,458 | - | - | 122,458 |
| Non-Allowable | 613,863 | 7,197 (2) 55 (4) 12,551 (5) 7,167 (6) 135 (7) 7,236 (8) 53,763 (10) | 15,438 (1) 24,142 (11) 6,524 (12) | 655,863 |
| Total Operating Expenses | <u>\$3,884,511</u> | <u>\$143,431</u> | <u>\$294,140</u> | <u>\$3,733,802</u> |
| Total Patient Days | <u>35,223</u> | <u>589 (13)</u> | <u>-</u> | <u>35,812</u> |
| TOTAL BEDS | <u>120</u> | | | |

MCCORMICK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended June 30, 1998
AC# 3-MHC-F8

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|--|--------------|---------------|
| 1 | Fixed Assets | \$ 60,339 | |
| | Cost of Capital | 15,438 | |
| | Accumulated Depreciation | | \$ 59,167 |
| | Fund Balance | | 1,172 |
| | Nonallowable | | 15,438 |
| | To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D | | |
| 2 | Fund Balance | 215,309 | |
| | Nonallowable | 7,197 | |
| | Bond Issuance Cost | | 215,309 |
| | Cost of Capital | | 7,197 |
| | To adjust bond issuance cost and related amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D | | |
| 3 | Interest Income | 28,520 | |
| | Cost of Capital | | 28,520 |
| | To properly offset interest income HIM-15-1, Section 202.2 State Plan, Attachment 4.19D | | |
| 4 | Nonallowable | 55 | |
| | Cost of Capital | | 55 |
| | To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D | | |
| 5 | Retained Earnings | 500 | |
| | Nonallowable | 12,551 | |
| | Nursing | | 13,051 |
| | To adjust nursing purchased services HIM-15-1, Sections 1000, 2302.1, and 2304 | | |

MCCORMICK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended June 30, 1998
AC# 3-MHC-F8

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|---|--------------|---------------|
| 6 | Retained Earnings | 5,467 | |
| | Nonallowable | 7,167 | |
| | Utilities | | 12,634 |
| | To adjust utilities expense | | |
| | HIM-15-1, Sections 2106, 2302.1, and 2304 | | |
| 7 | Retained Earnings | 8,690 | |
| | Nonallowable | 135 | |
| | Taxes and Insurance | | 8,825 |
| | To properly charge expense applicable | | |
| | to the prior period and reclassify | | |
| | vehicle costs to the proper cost center | | |
| | HIM-15-1, Section 2302.1 | | |
| | State Plan, Attachment 4.19D | | |
| 8 | Nonallowable | 7,236 | |
| | Medical Supplies | | 7,236 |
| | To disallow expense due to lack | | |
| | of documentation | | |
| | HIM-15-1, Section 2304 | | |
| 9 | Retained Earnings | 92,798 | |
| | Nursing | | 349 |
| | Restorative | | 97 |
| | Dietary | | 15,982 |
| | Laundry | | 13 |
| | Housekeeping | | 1,330 |
| | Maintenance | | 2,554 |
| | Administration | | 3,977 |
| | Medical Records | | 1,300 |
| | Medical Supplies | | 33,832 |
| | Special Services | | 33,364 |
| | To properly charge expense applicable | | |
| | to the prior period | | |
| | HIM-15-1, Section 2302.1 | | |

MCCORMICK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended June 30, 1998
AC# 3-MHC-F8

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|--|------------------|------------------|
| 10 | Retained Earnings | 14,734 | |
| | Nonallowable | 53,763 | |
| | Nursing | | 49,629 |
| | Restorative | | 2,525 |
| | Dietary | | 5,155 |
| | Laundry | | 1,731 |
| | Housekeeping | | 3,864 |
| | Maintenance | | 1,359 |
| | Administration | | 3,964 |
| | Medical Records | | 270 |
| | To adjust fringe benefits and related allocation HIM-15-1, Sections 2302.1 and 2304 | | |
| 11 | Special Services | 33,365 | |
| | Dietary | | 7,154 |
| | Medical Supplies | | 2,069 |
| | Nonallowable | | 24,142 |
| | To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D | | |
| 12 | Cost of Capital | 6,524 | |
| | Nonallowable | | 6,524 |
| | To adjust capital return State Plan, Attachment 4.19D | | |
| 13 | <u>Memo Adjustment:</u> To increase total patient days by 589 to 35,812 | | |
| | | <hr/> | <hr/> |
| | TOTAL ADJUSTMENTS | <u>\$569,788</u> | <u>\$569,788</u> |

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MCCORMICK HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended June 30, 1998
AC# 3-MHC-F8

| | | | | |
|--|------------------|------------------|-----------------|----------------|
| Original Asset Cost (Per Bed) | \$ 15,618 | \$ 15,618 | \$ 15,618 | |
| Inflation Adjustment | <u>2.2493</u> | <u>2.2493</u> | <u>2.2493</u> | |
| Deemed Asset Value (Per Bed) | 35,130 | 35,130 | 35,130 | |
| Number of Beds | <u>44</u> | <u>44</u> | <u>32</u> | |
| Deemed Asset Value | 1,545,720 | 1,545,720 | 1,124,160 | |
| Improvements Since 1981 | 7,670 | 7,670 | - | |
| Accumulated Depreciation at 6/30/98 | <u>(406,626)</u> | <u>(386,591)</u> | <u>(16,445)</u> | |
| Deemed Depreciated Value | 1,146,764 | 1,166,799 | 1,107,715 | |
| Market Rate of Return | <u>.063</u> | <u>.063</u> | <u>.063</u> | |
| Total Annual Return | 72,246 | 73,508 | 69,786 | |
| Number of Days in Period | <u>365/365</u> | <u>365/365</u> | <u>150/365</u> | |
| Adjusted Annual Return | 72,246 | 73,508 | 28,679 | |
| Return Applicable to Non-Reimbursable Cost Centers | - | - | - | |
| Allocation of Interest to Non-Reimbursable Cost Centers | <u>-</u> | <u>-</u> | <u>-</u> | |
| Allowable Annual Return | 72,246 | 73,508 | 28,679 | |
| Depreciation Expense | 42,195 | 42,195 | 16,445 | |
| Amortization Expense | 5,102 | 5,101 | 1,512 | |
| Capital Related Income Offsets | (11,181) | (11,180) | (6,159) | |
| Allocation of Capital Expenses to Non-Reimbursable Cost Centers | <u>-</u> | <u>-</u> | <u>-</u> | <u>Total</u> |
| Allowable Cost of Capital Expense | 108,362 | 109,624 | 40,477 | \$258,463 |
| Total Patient Days (Minimum 97% Occupancy) | <u>15,578</u> | <u>15,578</u> | <u>4,656</u> | <u>35,812</u> |
| Cost of Capital Per Diem | \$ <u>6.96</u> | \$ <u>7.04</u> | \$ <u>8.69</u> | \$ <u>7.22</u> |

MCCORMICK HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended June 30, 1998
AC# 3-MHC-F8

| | | | |
|--|-----------------|----------------|----------------|
| 6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement | \$ 7.79 | \$ N/A | \$ N/A |
| Adjustment for Maximum Increase | <u>3.99</u> | <u>N/A</u> | <u>N/A</u> |
| Maximum Cost of Capital Per Diem | \$ <u>11.78</u> | \$ <u>7.04</u> | \$ <u>8.69</u> |
| Reimbursable Cost of Capital Per Diem | | \$7.22 | |
| Cost of Capital Per Diem | | <u>7.22</u> | |
| Cost of Capital Per Diem Limitation | | \$ <u>-</u> | |

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified a condition that we have determined to be subject to correction or improvement. We believe this condition should be brought to your attention.

TRANSACTION CLASSIFICATION

The provider classified a significant number of transactions to improper accounts and cost centers.

Guidance for the proper classification of transactions is provided in the South Carolina Department of Health and Human Services Medicaid Nursing Home Accounting and Reporting Manual (Expense Crosswalk), the State Plan under Title XIX of the Social Security Act, Medicaid Bulletins and South Carolina Department of Health and Human Services directives.

By failing to classify transactions in accordance with the administering agency's guidelines, the Provider misstated several accounts and cost centers.

We recommend the Provider establish and implement necessary controls to ensure that all transactions are properly classified in accordance with the South Carolina Department of Health and Human Services guidelines.

2 copies of this document were published at an estimated printing cost of \$1.44 each, and a total printing cost of \$2.88. The FY 2001-02 Appropriation Act requires that this information on printing costs be added to the document.